

May 18, 2010

The Honorable Alan Simpson  
Mr. Erskine Bowles  
National Commission on Fiscal Responsibility and Reform  
1650 Pennsylvania Avenue NW  
Washington, DC 20504

Dear Senator Simpson and Mr. Bowles:

This memorandum describes what I believe are serious problems in our defense budget and some ideas to address them. I appreciate that some of these thoughts are controversial – even to the point that I have some reluctance in suggesting them. However, if we are to fulfill our mandate, we must make some difficult choices, not just recommend that others do so. In other cases, such as exacting financial accountability from the Department of Defense, I believe we all can agree. Indeed, without our adopting controversial, but vitally important, ideas, I fear we cannot achieve our mandate.

Despite the sacrifice, heroism, and professionalism that our military personnel have shown in Iraq and Afghanistan, America's defenses have been decaying, despite – perhaps even because of – increasing budgets. The ongoing corrosion and growing expense have been with us for decades, and span numerous presidents and political parties. Our Commission affords us an opportunity to start some very late due diligence on national defense spending. If these reforms are taken without the usual forms of compromise that always seem to occur – and prevailing practices that corrode our defenses are truly discarded – a stronger American military will result.

### **What Problems?**

As Stephen Daggett from the Congressional Research service noted in an earlier discretionary working group meeting, total Pentagon spending is higher today – in inflation-adjusted (“constant”) dollars than at any time during the last 60 years. This includes the Korean War, the Vietnam War, and the Defense Department spending during President Reagan's administration.

Not counting the spending for the wars in Iraq and Afghanistan, the “base” Pentagon budget has increased from \$407 billion in 2001 to \$553 billion for 2011 in inflation-adjusted dollars, according to the newest US defense budget data. Over the past decade, this means a cumulative total increase of almost \$1 Trillion for the base DOD budget.<sup>1</sup>

Compared to China, Russia, Iran, North Korea, and Cuba, we are spending more than three times what all those nations spend, combined.<sup>2</sup>

US defense spending almost matches what the entire rest of the world spends.<sup>3</sup>

The Obama Administration's current plan is to increase DOD spending by one to two per cent (real growth) each year for the foreseeable future.<sup>4</sup>

*Shrinking Forces:* The US Navy has fewer combat ships than in any year since 1946; the US Air Force has fewer combat aircraft, and the Army hit a post World War II low in combat division-equivalents in 2008 – from which it has barely recovered. These trends are not new; as the defense budget has grown over time, our forces have shrunk. Secretary Gates noted in a recent speech that current submarines and amphibious ships are three times as expensive as their equivalents during the 1980s and we have fewer of them.<sup>5</sup>

The current DOD plan is to make the Air Force even smaller, at dramatically increased procurement costs. The Navy has a draft shipbuilding plan to marginally increase the fleet from 287 ships to just over 300, but only if shipbuilding budgets are increased by 30 percent or more. Meanwhile current plans to “upgrade” naval aviation mean a smaller force than we had during the 1990s but at a cost of more than quadrupling spending for naval combat aircraft. The Army is spending up to \$88 billion to increase its core active duty combat brigades from 38 to just 42.<sup>6</sup>

*Aging Forces:* At the same time, major hardware inventories have actually grown older, on average. According to the Congressional Budget Office (CBO), among others, major categories of military equipment are aging in an unprecedented manner. CBO data also shows us that the DOD plan in many major hardware categories is for this problem to grow worse - assuming no further cost growth or schedule delay in each program. While cost of the high operating tempos for our forces in Iraq and Afghanistan have exacerbated this trend, it predates those wars and would be worsening even without them.<sup>7</sup>

For waging conventional war, the new weapons we buy to replace old ones increase in cost far faster than the budget increases (which makes inevitable the shrinking and aging of our weapons, at growing cost). Also, the new systems rarely, if ever, bring a performance improvement commensurate with the cost increase. In some cases the new system is even a step backwards. The F-35 Joint Strike Fighter's close air support capability is a good example. Among the aircraft it is to replace is the 1970s vintage – but still much used and almost universally praised – A-10 close air support aircraft. Even if the F-35 stays at its currently stated purchase price of \$131 million per aircraft<sup>8</sup> it will cost almost nine times more than an A-10, using inflation adjusted dollars. At that huge additional cost, it will have less payload than an A-10; it will not be able to loiter over the battlefield to help troops engaged in combat hour after hour; it will be too fast to be able to find targets independently, and even if it could, it will be too fragile to survive at the low altitude it must fly at to be truly effective, even against the primitive small arms and machinegun defenses terrorists and insurgents can mount. It also lacks the extraordinarily effective 30 mm cannon the A-10 carries, a weapon of astounding lethality against a wide variety of target types, including heavy armor.<sup>9</sup>

***Slow and Inflexible Acquisitions:*** For traditional programs within the acquisition system, the Government Accountability Office has also reported many cases of schedule delays of months and even years are due to the numerous additions of new requirements for weapon systems.<sup>10</sup> For the current conflicts in Iraq and Afghanistan, senior military leaders had to go outside the normal acquisition process in order to obtain both body armor and Mine-Resistant Ambush Protected vehicles (MRAPs).<sup>11</sup> In frustration regarding the acquisition of the MRAP vehicles and other requirements for the wars in Iraq and Afghanistan, Secretary of Defense Robert Gates himself has said that the Pentagon is not on a ‘war’ footing when it comes to budget and acquisitions.<sup>12</sup>

### **Where Did the Money Go?**

***Hardware Cost Growth:*** Since 2001, spending for our shrinking, aging hardware inventory has grown from \$75 billion in annual procurement dollars to \$113 billion today.<sup>13</sup> The Defense Department’s Selected Acquisition Reports (SARs) show two types of problems in this increased spending: programs that hugely increase in cost to buy no extra weapons, and programs that hugely increase in cost to buy fewer weapons.<sup>14</sup> For example:

- In 2000, the Air Force promised 341 F-22 fighters would cost \$61.9 billion (\$181.5 million each). Today’s estimate is \$66.7 billion for 188 aircraft (\$354.5 million each). Program cost went up 8 percent. Unit cost went up 95 percent. The inventory to be bought shrank by 45 percent.
- In 2001, DOD predicted 2,866 F-35 Joint Strike Fighters for \$226.0 billion, or \$79 million each. Today, DOD is predicting 2,457 F-35s for \$328.3 billion. The unit cost has gone up 68 percent to \$131 million each, while the units to buy shrank by 14 percent. The negative trends for this aircraft are not reassuring for the future.
- In 2000, the Navy projected 12 LPD-17 amphibious warfare ships for \$10.7 billion (\$891.7 million each); today we expect to build 11 LPD-17s for \$18.7 billion (\$1.7 billion each). Program cost went up 75 percent, and unit cost went up 89 percent, while the inventory shrank by a ship.

The Government Accountability Office (GAO) found that cost growth from 2001 to 2008 in major weapon systems amounted to \$296 billion.<sup>15</sup>

***Pork:*** Congress added at least \$60 billion in pork to post-September, 2001 defense bills.<sup>16</sup> Earmark projects were added without an objective estimate of actual cost, without an independent evaluation of need or efficacy, and without competition.

The budget growth for hardware (as discussed above) is simply unaffordable. The longer we wait to solve the problem, the steeper the cuts must be in both accounts in order to operate at a sustainable rate.

## **Will Recent Legislation Fix the Problem?**

Despite decades of acquisition reform from Congress, the Pentagon, and the think tanks, the Government Accountability Office (GAO) tells us that cost overruns in weapon systems are higher today, in inflation adjusted dollars, than any time since they have been measured. Last year, Congress passed the Weapon System Acquisition Reform Act of 2009. Almost every Member of Congress supported it, along with top Department of Defense managers. The early returns on the enactment of this legislation are not encouraging.

For example, one area of immense focus in the legislation was the goal of obtaining realistic, objectively derived cost estimates for major weapon systems. Despite this emphasis and the rhetoric of top Pentagon management, the new cost estimates for DOD's largest acquisition program, the Joint Strike Fighter, reject much of the work of an independent cost estimating team, known as JET II.<sup>17</sup> As a result, Congress and the Pentagon are locking themselves into a program that will only continue to grow in cost, and yet the Pentagon still plans to spend over \$70 billion to purchase 420 Joint Strike Fighters before completing flight testing.<sup>18</sup>

In yet another example of the bill's ineffectual support for another reform (competitive "fly-before-buy" procurement), the Army is also rushing ahead into production its various "spin-offs" from the cancelled – ultra complex, underperforming, high cost growth - Future Combat Systems program. The Army is nonetheless blindly plunging ahead into production of the "spin-offs" despite the DOD operational testing office's finding that they exhibit "notable performance deficiencies."<sup>19</sup>

## **Fixing the Mess**

The single most important step to solving this depressing array of problems is to better understand how the Pentagon spends its money - both historically and prospectively. Without an accurate grasp at the start of a spending program as to its most likely cost, schedule, and performance, how can decision makers understand the future consequences of their actions? Today, an ethic continues to predominate in the Pentagon that consistently paints an inaccurate picture – one that is biased in the same, unrealistic and ultimately unaffordable direction. The errors are not random: actual costs always turn out to be much higher than, sometimes even multiples of, early estimates.

The reason is simple; the Pentagon doesn't know how it spends its money. In a strict financial accountability sense, it doesn't even know if the money is spent. This incomprehensible condition has been documented in hundreds of reports over three decades from both the Government Accountability Office (GAO) and the Department's own Inspector General (DOD IG).

In a depressing and little-noticed report, the Pentagon Inspector General reported the following in its "Summary of DOD Office of the Inspector General Audits of Financial Management."<sup>20</sup>

- The financial management systems DOD has put in place to control and monitor the money flow don't facilitate but actually "prevent DOD from collecting and reporting financial information ... that is accurate, reliable, and timely." (page 4)
- DOD frequently enters "unsupported" amounts in its books (page 13) and uses those imaginary figures to make the books balance. (page 14) Inventory records are not reviewed and adjusted; unreliable and inaccurate data are used to report inventories, and purchases are made based on those distorted inventory reports. (page 7)
- DOD managers do not know how much money is in their accounts at the Treasury, nor when they spend more than Congress appropriates to them. (page 5) Nor does DOD "record, report, collect, and reconcile" funds received from other agencies or the public (page 6), and DOD tracks neither buyer nor seller amounts when conducting transactions with other agencies. (page 12)
- "The cost and depreciation of the DOD general property, plant, and equipment are not reliably reported ....the value of DOD property and material in the possession of contractors is not reliably reported." (pages 8-9)
- DOD does not know who owes it money, nor how much. (page 10)
- DOD does not accurately estimate or report the cost of cleaning up its facilities, does not track its environmental liabilities, and does not have a complete record of its ranges and operational activities. (page 11)

Amazingly, it gets worse; overall -

- "audit trails" are not kept "in sufficient detail," which means no one can track the money;
- DOD's "Internal Controls," intended to track the money, are inoperative. Thus, DOD cost reports and financial statements are inaccurate, but the size, even the vector, of the errors cannot be identified because the data cannot be verified, and
- DOD does not observe many of the laws that govern all this.

That final finding is perhaps the most appalling. Congress and the Pentagon annually report and hold hearings on all this and sometimes enact new laws, but nothing changes. Many of the new laws simply permit the Pentagon to ignore the previous ones.

For example, the DOD IG reports that

- "The Chief Financial Officers Act of 1990 ... required ... [DOD] to prepare ... financial statements that were audited by either the Inspector General or an independent public accountant..."

- Beginning in 1991, DOD began preparing and submitting financial statements for audit. However, DOD OIG audits of those financial statements for FYs 1991 through 2001 identified pervasive and long-standing material weaknesses which caused those financial statements to be unauditable.
- In 2001 Congress limited the amount of audit work performed by the DOD IG under the CFO Act based on management's representation regarding the [un-]reliability of the financial statements." (page 1 of the summary report identified above.)

In other words, the new law imposing competence was waived by the update. The actions in question and the inaction were the accomplishments of both Democratic and Republican administrations and Congresses. The behavior continues to this day. The recently enacted National Defense Authorization Act for 2010 contains a Section 1003 ("Audit Readiness of Financial Statements of the Department of Defense") which instructs DOD management to produce a plan "ensuring the financial statements of the Department of Defense are validated as ready for audit..."<sup>21</sup> The plan sets September 30, 2017 as the date when the Pentagon must receive a clean audit opinion.

If we do not have a system that does not accurately know what its spending history is, and does not know what it is now how can we make a competent, honest estimate of future costs? No failed system can be fixed if it cannot be accurately measured.

And yet, there is no sense of urgency in the Pentagon to do anything about it. Indeed, in the 1990s, we were promised this problem would be solved by 1997. In the early 2000s, we were promised it would be solved by 2007; then 2016; then 2017. Now we are being told 2017 is unrealistic.

It is quite clear that this essential key to controlling spending will not be effectively addressed by a Pentagon left to its own devices.

**The overall discussion above suggests a number of ways to control defense costs and ensure the reduced spending brings reform and improves our forces.** The summary paragraphs below describe the essence of these ideas; however, it is worth mentioning that riddling such reforms with loopholes and exceptions will only result in yet more business as usual.

***1. Begin a crash program to have the Pentagon pass a financial audit;*** To provide the necessary incentive for a financial audit the "base" Pentagon budget should be frozen in FY2012 at the FY2011 level. Unless and until all major components and all major defense acquisition programs are certified by the Inspector General or an independent public accountant for an unqualified audit opinion, spending for those components and those programs should remain frozen. This freeze should not apply to any spending for direct support of overseas contingency operations or Defense Department personnel and wounded warrior accounts. If the Secretary of Defense or Congress asserts that a freeze will harm the national security of the United States or our troops in combat, funding may

be increased but only by equally reducing other Defense Department components or programs.

**2. Stop High Cost Growth Acquisition and Reinvest the Savings:** No defense acquisition program may progress beyond a very limited number of Low Rate Initial Production items, unless and until the Director of Operational Test and Evaluation has reported to the secretary of defense and Congress that it is effective and suitable and that all planned development and operational testing is complete. There will be no exceptions from this prohibition of “concurrency,” no programs currently being developed in the Department of Defense are exempt, except that during combat operations authorized by Congress. That hardware may be delivered before the completion of operational testing to combat theaters on the direct, written request of the pertinent regional commander. Any immediate savings from the suspension of premature production of incompletely or untested defense programs may be reinvested in expanded production of fully tested defense programs to enlarge operational inventories and reverse inventory aging. For example, the short term savings from the suspension of further F-35 production may be used to purchase additional F-15, F-16, and F-18 aircraft and to refurbish A-10 aircraft which would immediately assist our ground forces in Afghanistan with additional support.

**3. End the Pork Process:** No line item increase “earmark” in defense spending bills and reports should be allowed without an estimate from CBO of its past, current, and future costs, an evaluation from GAO as to its need and efficacy. Finally no funds for congressional “earmarks” should be obligated unless there is a true full and open competition.

**4. Support Military Pay and Benefits but Curtail the Excess:** Congress should assess the long term affordability of DOD personnel pay and benefits, including for dependents, retirees, and survivors. Pay and benefits should be reformed to the extent that all such benefits are affordable within a DOD budget that assumes zero real growth for the foreseeable future. One of the areas that should be examined is the massively complicated pay structure built in to the Department of Defense. The layers of complexity involved with administering all the special pays, incentives, and tax benefits have a huge cost on the Defense Department in the area of administrative and human resources costs that do not benefit our troops. Similarly, the Defense Department should determine which benefit programs are valued the most by our servicemen and women to determine if certain prized benefits can be boosted while underutilized and obsolete benefits are phased out. Regarding the sheer number of personnel in the Department, Secretary Gates has also noted that the Department of Defense has far too many headquarters, staff, and bureaucracy that merely create more work for subordinate units.<sup>22</sup> Thorough examination in areas such as these could yield significant savings without any reduction in benefits for our troops and their families.

**5. Eliminate Non-Defense Pentagon Spending:** The secretary of defense and the director of the Office of Management and Budget should move out of the National Defense budget function any and all spending that does not directly and substantially contribute to

the national defense. A list of such activities now within the defense budget includes DOD Medical research for non-combat applications duplicated by the National Institutes of Health, National Guard counter-drug activities duplicated by local police and state-run efforts, and DOD expenses for running grocery stores and other commercial operations.<sup>23</sup>

**6. *Eliminate End of Year Spending Sprees:*** Eliminate the current bureaucratic policy that all appropriated funds under unit commander's control must be spent before the end of the fiscal year; permit one-half of such funds retained to be used by local level unit commanders for proven, urgent needs for military readiness ("urgent" to be defined by OMB); the rest to be returned to the Treasury for deficit reduction. Base and unit commanders shall be evaluated on their ability to save such funds, use them for truly urgent readiness needs, and return money to the Treasury. The DOD IG shall be notified of all such retention and use of funds to enable selective audits.

Many other cost-saving and military reform ideas have already been articulated by GAO, CBO, nonprofit think tanks, and others. Given the limited time our commission has to fulfill our duty, I encourage other commission members to examine the numerous recommendations from these organizations.

I strongly believe that we can work together for common-sense ideas that can both reduce wasteful, unnecessary, and duplicative defense spending that does nothing to make our nation safe. I look forward to working with you on this momentous task.

Sincerely,

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Tom A. Coburn, M.D.  
United States Senator

CC: The Honorable John Spratt Jr.  
Mr. Dave Cote  
The Honorable Richard Durbin  
The Honorable Ann Fudge  
The Honorable Jeb Hensarling  
Mrs. Alice Rivlin  
The Honorable Tim Ryan  
The Honorable Jane Schakowsky



## Endnotes:

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- <sup>1</sup> Wheeler, Winslow "Our Shrinking, More Costly Force," Armed Forces Journal, October 2008, <http://www.afji.com/2008/10/3690861/>.
- <sup>2</sup> See "The Military Balance, 2008," the International Institute for Strategic Studies, London.
- <sup>3</sup> See "The Military Balance, 2008," above and Stockholm International Peace Research Institute, Yearbook for 2008, and Central Intelligence Agency, "The World Fact Book, 2007."
- <sup>4</sup> National Defense Budget Estimates for 2011, Office of the Under Secretary of Defense (Comptroller), March 2010, p. 114.
- <sup>5</sup> Gates, Robert, "Navy League Sea-Air Space Exposition, Remarks as Delivered", Gaylord Convention Center, National Harbor, Maryland, Monday May 3, 2010, <http://www.defense.gov/speeches/speech.aspx?speechid=1460>.
- <sup>6</sup> Chapter 10 ("Long in Coming, the Acquisition Train Wreck Is Here") and Chapter 11 ("Understand, The Contain America's Out of Control Defense Budget") in "America's Defense Meltdown," Stanford University Press, 2009. See also "Defense Death Spiral," by Franklin C. Spinney, and Spinney's June 2002 testimony to Congress at [http://www.chaliventures.com/Links\\_to\\_Reports/Links\\_to\\_Idisk\\_files/June%204%20Statement%20to%20Congress%20-%20Color.pdf](http://www.chaliventures.com/Links_to_Reports/Links_to_Idisk_files/June%204%20Statement%20to%20Congress%20-%20Color.pdf).
- <sup>7</sup> Chapter 10 ("Long in Coming, the Acquisition Train Wreck Is Here") and Chapter 11 ("Understand, The Contain America's Out of Control Defense Budget") in "America's Defense Meltdown," Stanford University Press, 2009. See also "Defense Death Spiral," by Franklin C. Spinney, and Spinney's June 2002 testimony to Congress at [http://www.chaliventures.com/Links\\_to\\_Reports/Links\\_to\\_Idisk\\_files/June%204%20Statement%20to%20Congress%20-%20Color.pdf](http://www.chaliventures.com/Links_to_Reports/Links_to_Idisk_files/June%204%20Statement%20to%20Congress%20-%20Color.pdf).
- <sup>8</sup> GAO Report 10-478T, "Joint Strike Fighter: Significant Challenges and Decisions Ahead," March 24, 2010, <http://www.gao.gov/new.items/d10478t.pdf>.
- <sup>9</sup> "Joint Strike Fighter: Latest Hot Spot in Americas Defense Meltdown," Jane's Defence Weekly, September 8, 2008 at <http://www.cdi.org/program/document.cfm?documentid=4370&programID=37>. For cost comparison data see "How Much Will Each F-35 Cost?" at [http://www.cdi.org/friendlyversion/printversion.cfm?documentID=4596&from\\_page=../program/document.cfm](http://www.cdi.org/friendlyversion/printversion.cfm?documentID=4596&from_page=../program/document.cfm) and "Still More F-35 Cost Growth to Come" at [http://www.cdi.org/program/document.cfm?DocumentID=4599&StartRow=1&ListRows=10&appendURL=&Orderby=D.DateLastUpdated&ProgramID=37&from\\_page=index.cfm](http://www.cdi.org/program/document.cfm?DocumentID=4599&StartRow=1&ListRows=10&appendURL=&Orderby=D.DateLastUpdated&ProgramID=37&from_page=index.cfm). For A-10 cost data, see p. 166 of "Operation Desert Storm: Evaluation of the Air Campaign," US General Accounting Office, June 1997, GAO/NSIAD-97-135 at <http://www.gao.gov/archive/1997/ns97134.pdf>.
- <sup>10</sup> GAO Report 10-388SP, "Defense Acquisitions, Assessments of Selected Weapon Programs," March 2010, <http://www.gao.gov/new.items/d10388sp.pdf>.
- <sup>11</sup> Lamb, Christopher, Schmidt, Matthew, and Fitzsimmons, Berit, "MRAPs, Irregular Warfare, and Pentagon Reform," Joint Forces Quarterly, issue 55, 4<sup>th</sup> Quarter 2009.
- <sup>12</sup> Baker, Fred, "Gates Seeks to Shift Thinking on Budget, War," American Forces Press Service, April 15, 2009.
- <sup>13</sup> National Defense Budget Estimates for 2011, pp. 113-114.
- <sup>14</sup> The data for the costs depicted in these bullets are from the December 2000, 2001, and 2009 DOD Selected Acquisition Report summaries. These are available at <http://www.acq.osd.mil/ara/am/sar/>.
- <sup>15</sup> See "Defense Acquisitions: Assessments of Selected Weapon Programs," US Government Accountability Office, March 2009, GAO-09-326SP at <http://www.gao.gov/new.items/d09326sp.pdf>.
- <sup>16</sup> "How Congress Finances Pork" at <http://www.cdi.org/friendlyversion/printversion.cfm?documentID=4535>. For annual tabulations of the earmarks in defense spending bills, see the website and data base of Tax Payers for Common Sense at [http://www.taxpayer.net/search\\_by\\_category.php?action=search\\_by\\_category&category=National Security](http://www.taxpayer.net/search_by_category.php?action=search_by_category&category=National Security).
- <sup>17</sup> See "Selected Acquisition Report (SAR) F-35 As of December 31, 2009" available at the InsideDefense.com website and discussed at "Still More F-35 Cost Growth to Come" at <http://www.cdi.org/friendlyversion/printversion.cfm?documentID=4599>. The SAR reveals that the Under Secretary for Acquisition, Technology, and Logistics endorsed a F-35 SAR cost estimate employing the

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cost estimates of the JET II independent cost estimating team for only five of the 29 years projected for the F-35 program, and using the optimistic under-estimates of the program's in-house advocates for 24 of those same 29 years.

<sup>18</sup> GAO Report 10-478T, "Joint Strike Fighter, Significant Challenges and Decisions Ahead", March 24, 2010. <http://www.gao.gov/new.items/d10478t.pdf>

<sup>19</sup> See "Major Failings in Army Spin Outs," by Greg Grant, April 16, 2010 at DOD Buzz at <http://www.dodbuzz.com/2010/04/16/major-failings-in-army-spin-outs/#axzz0lf3fwEzu>.

<sup>20</sup> Find this report at <http://www.dodig.mil/audit/reports/fy10/10-002.pdf>.

<sup>21</sup> See p. 801 of the Conference Report for HR 2647, National Defense Authorization Act for Fiscal Year 2010 at [http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111\\_cong\\_reports&docid=f:hr288.111.pdf](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_reports&docid=f:hr288.111.pdf)

<sup>22</sup> Capaccio, Tony, "Gates to Target U.S. Military Bureaucracy in Fiscal 2012 Budget," Bloomberg Business Week, May 12, 2010.

<sup>23</sup> Congressional Budget Office, "Budget Options" pp. 28, 29, & 31. <http://www.cbo.gov/ftpdocs/102xx/doc10294/08-06-BudgetOptions.pdf>.